

PCARD PROGRAM BEST PRACTICES

1. Program Participants

Consider factors such as segregation of duties, job classification, position and training history when appointing Approving Officials to ensure they can successfully perform their duties. Approving Officials should be at least one level higher than the cardholder in the line of authority and is typically their direct supervisor. Cardholders should be the same person that would make a standard type of purchase.

2. Card Management: Training and Agreements

Require successful completion of a written test after Cardholders and Approving Officials complete their mandatory training.

Offer additional training, as needed, to Cardholders and Approving Officials.

Send electronic reminders to Cardholders, Approving Officials, and Reallocators outlining their program responsibilities.

Develop in-depth guidance and make it available online to Cardholders, Approving Officials and Reallocators. Include a copy of, and discuss, the "State of Colorado Procurement Code of Ethics" during training.

Develop and maintain an agency Procurement Card website which includes a "Frequently Asked Questions" section.

3. Card Management: Card Distribution, Activation, and Custody

Provide each Cardholder with a plastic or vinyl "credit card case" in which they are to keep their agency procurement card. Insert the card itself into one side of the case – on the other side of the case provide a list of unauthorized transactions, tax-exempt information, etc.. Use of a credit card case will keep the procurement card separate from the Cardholder's personal credit cards and should help prevent the Cardholder from inadvertently using the procurement card for personal purchases.

4. Transaction Documentation

Establish written documentation policies.

Establish policies which indicate who must maintain documentation and for how long.

5. Reconciling the Statement

Require Cardholders by written policy to reconcile monthly statements to supporting documentation.

Send monthly statements to Cardholders by email.

6. Allocating/Reallocating Transactions

Assign default codes to each Cardholder based on his/her department.

Reallocate transactions to the appropriate account codes by a designated Reallocator to ensure proper expenditure coding.

7. Approving Official Review

Have Approving Officials review and authorize Cardholder statements and individual transactions each month. Have Approving Officials and Reallocators reconcile statements to receipts to ensure adequate documentation is maintained and that purchases are for official state business only.

8. Prohibited Transactions

Establish written policies regarding which types of purchases are allowable and those that are unallowable.

9. Violations and Consequences

Establish written policies outlining types of violations and their consequences.

Include procurement card program policy and procedure compliance as part of the Cardholder's job performance review.

Utilize card cancellations and other disciplinary actions for violations of agency policy.

Request that legal counsel formally review procurement card certification forms, agreements, and handbooks to determine if they appropriately describe responsibilities and actions that may be taken by the state agency or institution of higher education.

Develop a "points system" for violations with various consequences. Periodically review to ensure that proper actions are taken when warranted.

10. Program Monitoring and Audit

Have audit functions review a specified number of Cardholders and Approving Officials each year.

Have split purchase reports reviewed regularly by the Program Administrator and ensure that appropriate follow-up is conducted on questionable purchases.

Survey agency program participants to obtain feedback regarding problem areas, levels of satisfaction, etc..

Identify and utilize different reports as part of transaction auditing.

Involve internal audit in monitoring the program.

Have the Program Administrator review Cardholder status and make appropriate changes on an annual basis - monitor how frequently each Cardholder is actively using their card – compare the Cardholder's frequency of use to their credit limit.

Cancel cards with little or no activity – interview Cardholders to determine why the card is not being used.

Institute processes that verify each transaction and random auditing by accounts payable staff as measures for reconciling the procurement card invoice/debit for payment.

PCARD TAX EXEMPTION SUMMARY

Procurement Card purchases are exempt from State of Colorado and state-collected sales and use taxes only. This applies to all purchases including in-store, over the phone and internet purchases.

As long as the transaction is billed to and/or directly paid for by the governmental organization, the transaction IS exempt from State sales and use tax. Verification that the purchase is for governmental purposes may be required. A letter on the governmental entity's letterhead, copy of the tax-exempt certificate or an affidavit declaring the purchase is made from government funds is usually sufficient.

If a government employee makes a purchase using cash, a personal check or personal credit/debit card, and expects to be reimbursed by the agency, it is NOT tax exempt, even if the employee presents a tax exemption number.

Payments made under a purchase order should not include taxes. A vendor providing goods or services under a State Purchase Order shall NOT be reimbursed for any sales or use taxes they may be required to pay even though the materials are for the benefit of the tax-exempt entity. The vendor should incorporate all costs in the original scope of work and/or estimate. Refer to Paragraph 10 of the Standard Purchase Order Terms & Conditions.

Government agencies are not required to have a Colorado issued tax-exempt number.

There is not a mandatory reciprocal agreement to accept sales tax exemptions with other states. Sales tax charged on purchases shipped out of state should be paid.

Home-rule jurisdictions (cities and counties) may have different rules regarding government tax exemptions. For example, purchases made in the City and County of Denver are NOT exempt from the Denver taxes.

BEST PRACTICE TIPS:

- Document your agency specific procedures in your Agency PCard Program Guidelines/Handbook. Auditors are less concerned with how the tax decisions are managed and more focused on the documentation supporting the tax decision-making.
- Compare costs to recover taxes paid versus the amount charged. It is not recommended to implement a process that will cost more in employee wages than the minimal credit.
- Keep all transaction related documentation on file.
- Include tax-exempt procedures in training sessions for Cardholders and Approving Officials.
- If a cardholder is making a transaction with a company based in Colorado and the internet site does not provide a tax-exempt option, they should place the order over the phone and fax the certificate of exemption or required documentation.

MERCHANT FEES / INTERCHANGE RATE SUMMARY

Colorado is one of ten states where it is prohibited by law for merchants to charge consumers a fee or surcharge for using a credit card to pay for a transaction. Consumers have protection against these fees and may report the merchant to their state attorney general's office.

What is a Surcharge? A surcharge, also known as a payment card checkout fee, is an added fee that a merchant charges a consumer when they use a credit card. Visa and MasterCard merchants are not permitted to charge consumers a fee that is not applied to all forms of payment. This is different than a "convenience fee" that may be paid to a third party processor. For example, the Department of Labor charges an allowable portal administration fee to the Statewide Internet Portal Authority so that they can offer their customers the convenience of submitting payments online.

However, a merchant CAN offer a discount for cash and check purchases.

What is a Cash Discount? A cash discount is a price reduction on goods or services from the standard price if a consumer pays with cash or check. Merchants may offer a discount for cash provided that the offer is made to all prospective buyers. The states of Colorado, Maine, Massachusetts and Oklahoma additionally require that the cash discount be clearly and conspicuously disclosed to customers.

All allowable fees or discounts must be clearly posted.

Colorado "NO SURCHARGE RULE" for Consumer Purchases

"[N]o seller...may impose a surcharge on a holder who elects to use a credit or charge card in lieu of payment by cash check or similar means..." Statute: Colo. Rev. Stat. Ann. § 5-2-212(1) (West)

Discounts for Cash Payments are allowed in Colorado.

"Discounts offered to induce payment by cash, check or other means not involving credit card are not finance charges if offered to all prospective buyers and disclosed clearly and conspicuously in accordance with regulations."

Statute: Colo. Rev. Stat. Ann. § 5-2-212(2) (West)

Statutes cover: Credit Cards only

Statute: (See Colo. Rev. Stat. Ann. §§ 5-1-301(16), (16.5), (24), (43) (West)).1

For more information contact the Colorado State Attorney General – [Consumer Complaints](#)

BEST PRACTICE TIPS:

- Refer the merchant to the MasterCard rules stating they are not allowed to charge a fee to process a credit card transaction.
- Discontinue business with the merchant if they refuse to comply.
- Contact the JPMorgan Chase for assistance and report the merchant to MasterCard.

REFERENCES:

Department of Revenue – Sales Tax FYI Publications:

<http://www.colorado.gov/cs/Satellite/Revenue/REVS/1193047059515>

Overview from the Department of Revenue, FYI Sales 63, Government Purchase Exemptions:

<http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1191399166872&ssbinary=true>

Information issued by the City and County of Denver as their supplemental tax guide:

<http://www.denvergov.org/Portals/571/documents/TaxGuide/Credit%20Cards%20from%20Governmental%20Organizations.pdf>

Government Accountability Office report on Rising Interchange Fees

<http://www.gao.gov/new.items/d1045.pdf>

This report confirms many of the most harmful aspects of unfair, hidden swipe fees. The report shows that the credit card companies and their issuing banks have been misleading the public about their increasing rates and about the benefits of credit cards to businesses. The report also outlines an unfair, anti-competitive system that hurts Main Street businesses and their customers in order to pad the banks' bottom lines, with little relation to the actual costs of processing payments.

http://usa.visa.com/personal/using_visano-surcharge.html

<http://www.mastercard.com/us/merchant/support/rules.html>

<http://www.fightswipefees.com/about.asp>

<http://www.unfaircreditcardfees.com/>

BEST PRACTICE TIPS PCARD PROGRAM REVIEWS/AUDITS:

- Successful PCard program reviews (audits) are versatile and performed regularly.
- Reviews can be formal and informal and should be performed by the State, Agency Program Administrators, Allocators, Approving Officials and Cardholders.
- Reviews should include electronic data monitoring and physical review of statements, itemized receipts and required documentation authorizing the purchase.
- Risk mitigation versus the process costs should be considered when implementing agency procedures. Should you spend \$200 to find a \$20 issue?
- Auditing every individual transaction reduces the cost-savings associated with PCard use.
- Cardholders with high limits and/or previous violations should be monitored more closely and frequently.
- Educating your Cardholder's and Approving Official's about allowable transactions and your PCard program guidelines, policies and procedures is essential for preventing misuse.
- Cardholder's and Approving Official's should be aware that every transaction may be a matter of public record and can be viewed by the Agency and State.
- **Essential Key to Compliance = Cardholder and Approving Official Accountability!**